RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED
SINCE 1958 •
POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

November 28, 1990 LETTER 1057

Nov. 16 DJIA 2550.25; PTI 3169; A-D Ratio -17.13
Nov. 23 DJIA 2527.23; PTI 3163; A-D Ratio -17.29
Dow Yield: 4.06%; Dow P/E: 13.2; DowPow: -885
Dow 200-day MA: 2693; Dow 30-day MA: 2478
Dow Book Value: 1276; PTI 89-day MA: 3213
Percentage of Undervalued Blue-chips: 32%

WHERE ARE WE? Investing is a dirty business, but somebody's got to do it. Well, let's face it -- the fact is that all of us have to do it. Last week, on Larry King's late night show (4 A.M. here in San Diego), I heard a well-known publisher-advisor tell the world that this is a bear market and the "safest investment in the world" is a US Treasury bill. "Is that right? " I said to myself. "Then why have Treasury bills, in terms of say Deutsche marks or Swiss francs, gone down like a lead balloon over the past few years?"

The advisor on Larry King's show was being old-fashioned or maybe he was just being patriotic -- he was thinking like any red-blooded American. But you can't do that anymore. Today, you have to forget "mother and apple pie and America the Beautiful", and think like an internationalist (see Investment Position). You have to think that way because the dollar is falling out of bed.

Why is the dollar headed down? It's going down because Washington is bankrupting the nation and the rest of the world knows it. Our incumbent clowns in Congress were supposed to do something about the deficit, remember? Well, ponder this: the government spent $1.255 billion in fiscal 1990. But the 1991 budget calls for spending of $1.372 billion, a rise of $117 million or 9.3%, and that's before adding a probable $75 billion for S&L bailouts, plus whatever extra the Middle East affair will cost us. In other words, the latest tax increases are real, but the spending cuts are fantasy and slated for the future.

MARKET: OK, now let's talk about something easy like the stock market. From its July high of 2999.75 to its October low of 2365.10, the Dow lost 634.65 points. A rally began on October 18. The bear market rally hit a November high of 2565.34. Therefore, since its October low, the Dow has retraced (corrected) 30% of its bear market losses -- so far, a sub-standard performance (most bear market corrections retrace 1/2 to 2/3 of their previous losses).

But the rest of the market has not fared nearly as well as the Dow. For instance, the advance-decline ratio over the same period (see page 2 chart) lost a total of 8.94 points. On the recovery since the October low, the A-D ratio has recouped only 1.50 points or 16.8% of its July to October losses. This figure (16.8%) is typical of the action in the average stock portfolio. In other words, the average stockholder sustained major losses during 1989 and 1990, but only a small portion of those losses have been recouped in this bear market rally.

From a Dow Theory standpoint, it is important to note that the D-J Industrial Average has bettered its October high, but the Transports have so far failed to confirm. The October high for the Transportation Average was 883.69. From a near-term standpoint, it will be important to see whether the Transports can better the **883.69** point. If they cannot, then technically (despite any backing and filling or solo Dow rallies), the upside correction is OVER.

On the downside, the targets continue to be the October bear market lows of **2365.10** for Industrials, **821.93** for Transports.

What about the currently popular utilities? The Utility Average hit a recovery high on November 2 at 215.92. Since then the Utilities have been sliding, and as of this writing they are 9 points below their high. The Utility Average has been a bellwether -- it turned up in late-August well before the rest of the market. The Utility downturn in November could therefore be meaningful.

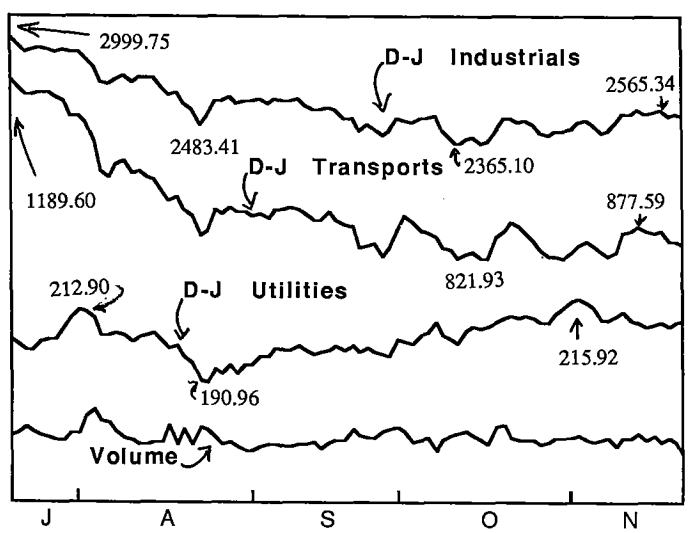
A few words about utilities. The funds are aware that it's a bear market, but fund managers aren't being paid to be in cash, they're paid to pick and be IN stocks. With most of their picks heading south, the funds opt for the utility stocks, believing that the utilities are recession-proof. Thus, the rush for utilities. But utilities go down in bear markets. During 1972-74, the Utility Average dropped from a November 1972 high of 124.14 to a September 1974 low of 57.93 -- a decline of 53% (a greater decline than was seen in the Dow).

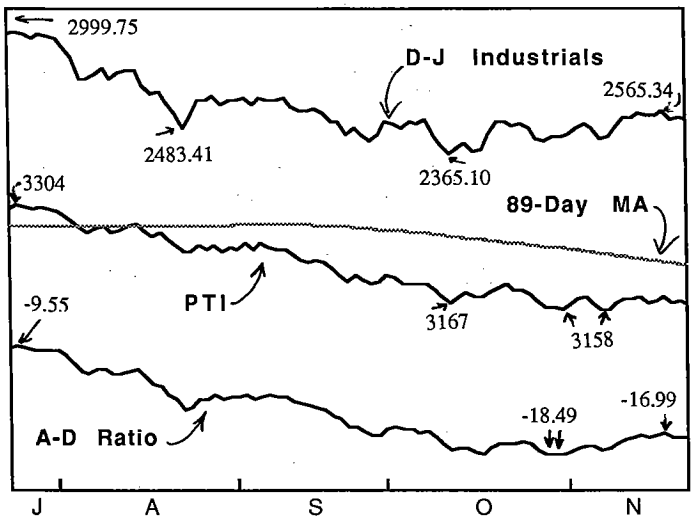
PTI: My Primary Trend Index (PTI), as seen on page 2, continues in a pronounced downtrend. It's holding well below its (declining) 89-day moving average, and thus it remains in the bearish mode.

For the benefit of new subscribers, I should explain that the PTI is my proprietary index; it is an amalgam of eight market indicators. Each of these indicators is based on market action. I use market action indicators (rather than sentiment or ratio indices) because there is no argument, no decision-making required when dealing with market action indices. An index is either up or down.

When the PTI is in the bearish mode (as it now is), the correct position for us is to be out of stocks and on the sidelines (this is doubly true when the market is bearish as defined by Dow Theory). Conversely, when the PTI is in its bullish mode (above its 89-day moving average), one can be invested in stocks, and this is doubly true when the market is bullish as defined by Dow Theory.

BEAR MARKET THOUGHTS: The bear market we are in is going to be very difficult, complex and deceptive. I've been saying that all along, and I feel more strongly about that now than I did six





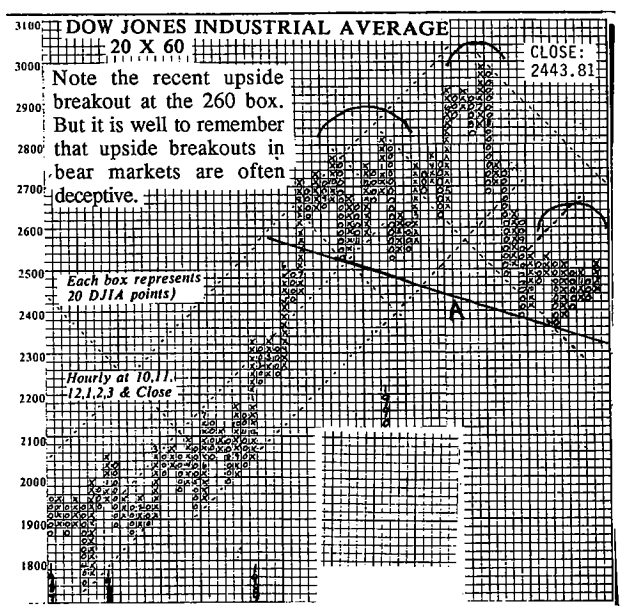
months ago. Everything I see points to that conclusion. It's going to be a devil.

Nobody can be certain as to where we're going, but charts can at least aid in telling us where we are. Here are two charts that I think tell a lot about where we are and what we might expect.

The first is a point & figure chart of the Dow. This is a 20 x 60 chart, meaning that each box on the chart represents 20 Dow points, and only rallies or declines of 60 points or more are depicted. Thus, the chart provides a very concentrated picture of the Dow from 1987 to the present.

The chart shows the Dow in a huge head-and-shoulders top formation with a declining (bearishly slanted) "neckline" or line of support (marked "A" on chart). The Dow is now "working" on the right shoulder of the pattern, and the Dow could easily rally up to or even above 2600 without destroying the symmetry of the pattern. Whether the Dow will push above 2600, of course, is unknowable (chart courtesy of *Chartcraft*, New Rochelle, NY).

The second chart is one that I keep, and it is one that you won't see anywhere else. This chart shows the Value Line Composite (over 1700 assorted stocks on all three exchanges) covering the period of March 1990 to the present. Below the Value Line is my All-Market Index (AMI), which is a composite daily advance-decline line showing the total of breadth (advances minus declines) on the NYSE, the NASDAQ and the AMEX.



What you see between the June 4 peak and the October 31 low is a massive across-the-board collapse in breadth. During those five months, AMI lost 47501 units, which means that among all stocks there were 47,501 more declines than advances. That boils down to an average of 448 more declines than advances per day over a period of 106 trading days. That represents one of the worst performances that I've seen in 45 years of watching markets.

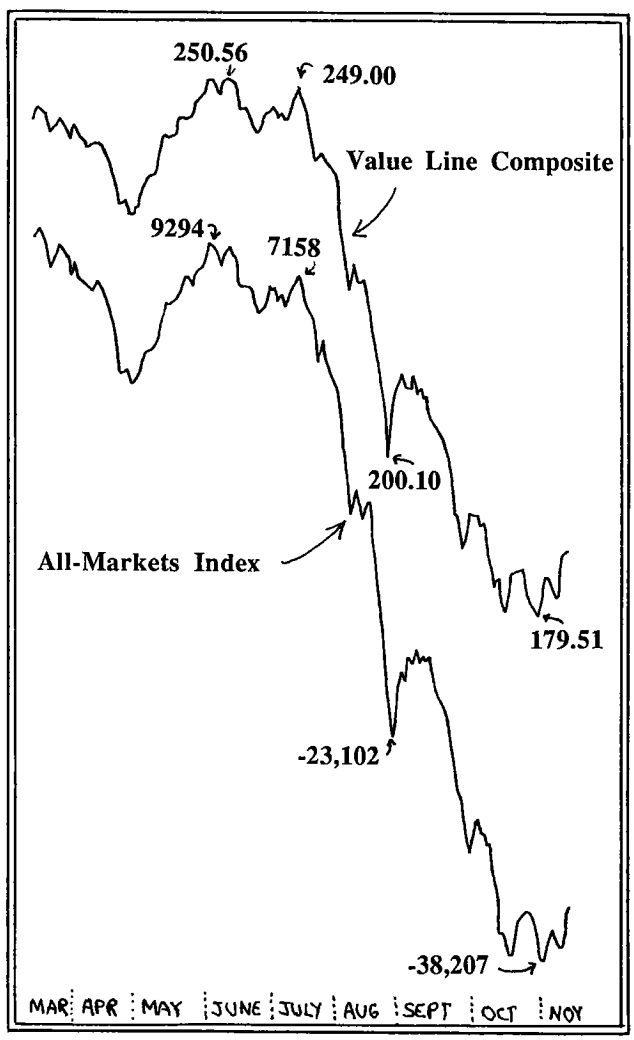
So far, as you can see on the chart, the upside correction of this collapse has so far been minimal. It's been a sort of selective Dow rally with most non-Dow stocks participating very niggardly. This suggests that the market is basically quite weak, and that Wall Street may simply be working off an extremely oversold condition.

There are two ways of working off an oversold condition in a bear market. (1) Protracted upside action but with the upside progress being unimpressive. (2) Violent, impressive but short-lived upside action. So far, #1 seems to be the market's choice.

There's another facet to this market that I find interesting. It's now widely conceded that a bear market is in progress. With so many people agreeing that "it's a bear market," I find myself wondering, "Isn't the market ready for a fooler? And what could the fooler be?"

My first thought is that this rally could last longer than expected. By that I do not mean that the rally has to go that far on the upside. I do mean that the lows for the Averages could hold for a longer period of time than expected -- possibly another few months or more as a guess.

To put it another way, we might have a long, tedious "going nowhere" movement by the market, finally ending (sometime in 1991) with a major new (bear market) leg to the downside. Whereas the June-October bear market leg hit everybody in the pocketbook, the action for the next number of months might hit



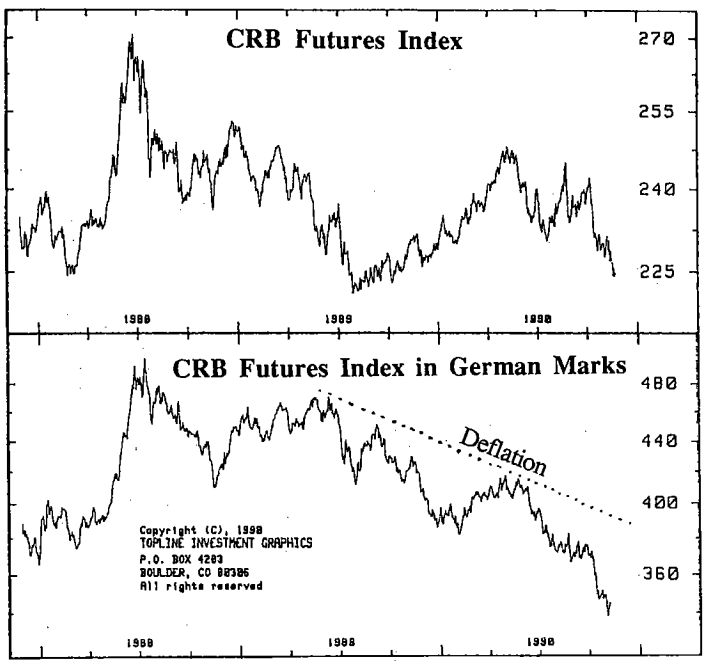
everybody in their "patience-quotient," wearing out both the bulls and the bears -- via the market doing nothing of significance.

Ah, but here's the caveat -- bear markets are treacherous and deceptive. The bear always wants to go down while taking the greatest number of stockholders with him. This is the reason why I always caution subscribers about trying to beat the bear. You may do it once or twice, but long experience tells me that if you adopt a policy of playing bear market rallies, you are going to end up on the losing end of the stick. Personally, I always position my investments in harmony with the primary trend of the market. The primary trend is down.

MORE ON GLOBAL DEFLATION: I started the last Letter with a piece on world deflation. Coincidentally, no sooner did I send that Letter to my printer, when I received a FAX from long-time subscriber and computer expert John Carder. Writes John, "Your last letter brought up the inflation/deflation question. I've enclosed a few charts that may shed some light on the matter. In my opinion, the **world** is in the midst of a global deflation. The dollar's weakness is masking that deflation to American investors, but it is there, nevertheless . . . On a purchasing power basis, the dollar has already fallen very far. But any strength in the dollar would reverse the currency effect and bring the deflation home to us."

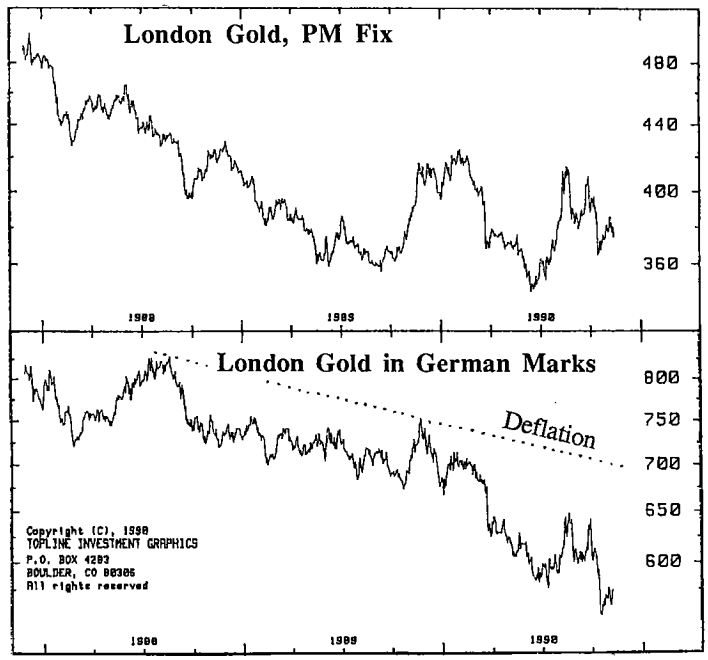
Obviously, John Carder and I are on the same wave length. In proof of the global deflation thesis, John faxed me a number of charts of the CRB Commodities Futures Index and gold -- all in various world currencies.

In proof of the deflation thesis (it's a fact, not a thesis), I include a few of John's charts. The first shows the CRB Futures Index (27 commodities) in dollars, and you can see that in terms of (weak) dollars, the trend since 1988 is arguably up. But if you live outside the US, say in Germany, the trend of the CRB has been down, down, down. A slump like this in an assortment of 27 different commodities indicates deflation -- no question about it.



The same thing can be said for gold. In terms of (weak) dollars, the trend of gold is still up, since gold has held well above its 1989 low. But in terms of Deutsche marks, the trend of gold has been down, again signifying that deflation is the prevailing force, as far as the hard currency nations (Germany, Japan, Switzerland, France, etc.) are concerned.

The question: at what point will the dollar rally? Answer: no one knows. As the recession deepens, the pressure is on the Fed to LOWER rates, although this may be discounted in the current low



price of the dollar. Higher rates overseas are already favorable to most of the hard currencies. Furthermore, the huge build-up of US military forces in the Mideast is costing the US added billions of dollars. Then there is the continuing problem (seemingly open-ended) of the S&L bailout. And, of course, the force that is militating most against the dollar is the steady, relentless compounding of the federal debt and the interest on that debt.

The single biggest plus for the dollar (aside from the fact that it is oversold) is purchasing power parity. The dollar, in terms of what it will buy here in the US, is cheap, no question about it. That's value, but like everything else, the dollar is subject to the law of supply and demand. If the world perceives the dollar as being a poor store-of-value, a currency run by a government whose finances are out-of-control, then the world will opt to choose other currencies as stores-of-value. And that, in a nutshell, is the reason for the bear market in the dollar.

INVESTMENT POSITION: The bear is still master of the box. And the place to be is CASH. But -- there is cash and there is cash -- and the kind of cash I have been urging subscribers to diversify into is the hard European currencies, meaning the Deutsche mark and the Swiss franc or that composite -- the European Currency Unit, known as the ECU.

I realize that switching from dollars to the "hard" (non-Anglo-Saxon) currencies represents something strange and exotic -- even fearful, to Americans. Nevertheless, it's time to move, and those who have been listening are already showing good profits against the dollar. The point, however, is not to garner profits. The point is to hedge (protect yourself) against a vicious, relentless collapse in the dollar.

So far the decline in the dollar has been largely unnoticed or ignored (it's certainly been ignored by our representatives in Washington). The dollar has been, and still is, in what I term the "silent panic." Nevertheless, the bear market in the dollar has, in terms of the hard currencies, been quietly wiping out wealth across the face of America.

But here's a warning. At some point I'm afraid that the ongoing silent panic in the dollar will turn into a rout, an all-out panic that will be heard around the world. I'm afraid that at some point there will be a real rush to get out of all dollar-denominated items

(bonds, stocks, real estate, etc.). Such a panic would leave US investors bewildered and reeling.

How to get into the hard currencies? Shearson Lehman offers a "Global Currency Fund" (load) although your local Shearson broker probably has never heard of it. Dean Witter offers a hard currency fund (again, check with your broker). Merrill Lynch handles selected hard currency bonds (they just quoted me JP Morgan paper in ECUs yielding over 9% for one year; check with your Merrill broker). The giant Swiss Bank Corp. (with offices in major US cities) offers outstanding facilities to buy the hard currencies, but only in amounts of $200,000 or more. Mark Twain Bank of St. Louis offers CDs hedged in all the foreign currencies, and here the minimum is only $10,000. International Cash Portfolios offers a number of hard currency portfolios, and you can reach them at (800) 354-4111.

So far, the American public has done little or nothing in terms of protecting itself against the dollar's collapse. The ads and mailers that you read are concerned almost totally with stocks, bonds and money market instruments, all of which are calculated to outperform the bear market. But American investors are battling the wrong war. The real war is the war against the dollar. That, by the way, is one of the nasty aces that the bear has up his sleeves.

MIDEAST: You know something -- I'm getting awfully tired of Bush's gobbleygook on Iraq. What are the facts? The fact is that the US was engaged in a major effort to rebuild war-torn Iraq, and that effort reached a peak in 1989. From 1985 to 1990, the US Import-Export Bank financed $260 million in US exports to Iraq. In 1989, the US Dept. of Agriculture's credits reached a peak of $1.1 billion to encourage exports of US rice, corn and wheat to Iraq. At the same time, US businessmen were lined up to do business with Iraq.

Bush should come out and admit that US policy was disastrously wrong. Furthermore, he should stop giving all these damn fool reasons for a potential US attack on Iraq and deal with the single reason that is worth a war. That single reason is that we are dealing with a cut-throat dictator, a man who has not hesitated to kill thousands of his own people with poison gas, a man who runs a vicious police state, a man who murders his detractors with impunity. What separates Hussein from all the rest of today's dictators is his utter ruthlessness and his willingness to use any means including mass murder to gain his ends.

Bush should tell the American people the truth about the Hussein threat. He should tell them that it's just a matter of time before Hussein has nuclear weapons, and that based on his past history there is no doubt that he would use them to gain his ends. Bush should tell the American people that the single reason for attacking Iraq is to stop Hussein before he has the tools to blackmail the US and the rest of the world. Nothing else makes sense. There is no other valid reason to sacrifice American lives. Furthermore, Americans know it. But they should hear it from their President, and they should hear it before the whole Bush presidency starts to unravel (which it may be on the verge of doing).

I don't know who Hussein's strategist is, but he's pretty good. As Congress, our allies and everyone else argue about whether we should go to war, Hussein ups the ante by sending another 250,000 troops to Kuwait. The message: "Mr. Bush, if you attack, you are going to have one hell of a war on your hands." Yeah, and between you and me, I think the American people know it.

NOTES & QUOTES: A front page article in the Nov. 11 *New York Times* notes, "Japanese Labs in the US Are Luring America's Computer Experts." The Japanese may not be the world's leading innovators, but what they can't produce, they buy. For instance, the Japanese have never been mass producers of popular movies, but over the past few years they have just about taken over Hollywood. The Japanese have never been red hot in computer software, but now they're opening labs all over the US and hiring away some of our top computer programers and scientists. Well, as they say, if you've got money you can buy anything but love. Evidently, the Japanese can get all the love they need at home. But when it comes to top scientists, money does the trick.

* *

More Japan: 120 million people live in Japan, a country the size of Montana. But less than 5% of that land is used to house Japan's population. Japan's land value is about $14.5 trillion, equal to half the value of all the world's land (total US land is valued at $3.5 trillion, but the US has 25 times as much land as Japan). Incredibly, downtown Tokyo is valued at $5 billion an acre. Greater Tokyo is valued at $7 trillion, equal to one quarter of the value of the rest of the world's land. The Japanese government is now trying to gently bring down the price of Japanese land -- they want it down an eventual 30% in sort of a "soft landing" effect. Russell comment: Good luck. When a tree grows to the sky, don't expect it to just topple over and float gently back to earth.

* *

Is this possible? According to statistics, three out of four people in the US die without a will.

* *

Normally very conservative Larry Tisch (he controls *CBS* and *Loews*) has jumped in and purchased $454 million worth of assorted bank stocks from Chase to Bank of Boston to Bank of New England to Continental. According to *Business Week*, those holdings are now worth $210 million. That represents a paper loss of $244 million. The Tischs, smart as they are, evidently don't understand that this is a primary bear market. In time they will.

* *

One fellow doesn't agree with the Tischs. He's John Kluge (76), America's richest man (estimated worth is $5.6 billion). Kluge is telling his friends that the US is headed for depression.

* *

A quote to think about, from *Commodity Information Systems* , Houston, TX: "In reality, the US 'fired the first shot' in the spreading world trade war through devaluation. The idea that a cheaper dollar would increase exports and limit imports is nothing more than a hidden form of protectionism. In effect, the dollar devaluation imposes a hidden tariff on all imports and produces a subsidy on all exports. Should we be surprised that foreign nations are beginning to subsidize exports and limit imports to maintain their prosperity and market share?"

* *

The most elusive element in Saddam Hussein's rush to make nuclear bombs is weapons-grade uranium. But that problem was solved via German companies. German companies built the plants for Iraqi poison gas, for Iraq's Big Gun, and for Iraq's nuclear and research center. Said a Pentagon expert, "If you didn't have German companies, you wouldn't have a proliferation problem right now. It's that overwhelming."

* *

Just in case this "mild" recession turns into a very deep recession or depression, have you wondered how good (solvent) the big government agencies are? Here's the story, and it isn't a heartening one. Behind every $100 of obligations the FDIC has only 73 cents. Fannie Mae has only 53 cents behind every $100 of obligations. And Freddie Mac has only 80 cents behind every $100.

* *

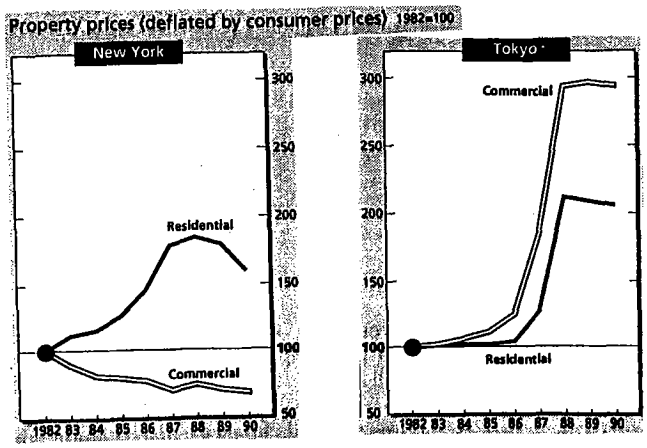
San Diego's own Pete Wilson (he was our mayor) is the new state governor. Congratulations, Pete. His first job will be to deal with California's astounding 1991-92 state deficit which is estimated at $4.2 billion. Pete, please, no new taxes.

* *

Ned Davis' battery of 23 indicators flashed a recession on November 2. Ned notes, "Real M3 supply growth has been less than real GNP growth for three years . . . Since 1960, it has taken an average of 17 months of negative liquidity to push the economy into recession. This intense negative liquidity could take time to correct, thereby making the recession worse than the normal since we are far beyond the average . . . At 3%, we are currently running the largest deficit to GNP ever seen prior to a recession. As the recession persists, it could easily produce a record deficit to GNP ratio." Russell comment: I expect the government's tax receipts to plunge next year, producing a record deficit of maybe $500 billion and a very high deficit to GNP ratio.

* *

One of the keys to this recession will be the price of real estate and housing. A chart from the Nov. 3 *Economist* shows property prices adjusted for inflation in the US and Tokyo. Commercial has actually been a losing proposition since 1982 in the US, although commercial is still super-high in Japan. If real estate prices continue to decline in the US (and Japan for that matter), hold your hat.



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The financial story of the 1990s is DEBT. Along those lines, Christopher Byron, in *New York* magazine, lists America's most highly leveraged firms among non-financial, non-utility companies with revenues of more than $5 billion. In other words, these are America's biggest debt-laden firms. Example: R.H. Macy with a current net worth of around $327 million struggles to support debt of $5 billion (giving it a debt-to-equity ratio of 20 to 1). As a group, these firms are loaded with $194 billion in debt, almost all of it taken on during the 1980s. The group has sales of over $200 billion and employs nearly 1.5 million workers. Any or all of these firms would be vulnerable to "the big squeeze" if this recession get nasty. The big squeeze means selling off divisions, streamlining, firing people.

DEBT BAGGAGE

Twenty Big Companies in Hock for a Lot

Company	Business	Employees'	Income (billions)	Debt to Equity
Continental Airlines	Transport	31,400	$ 5.08	47/1
Supermarkets General	Supermarkets	51,000	$ 6.3	23.4/1
RH Macy	Retailing	78,000	$ 6.9	20/1
RJR Nabisco	Consumer products	48,000	$12.1	10.5/1
Marriott Corp.	Lodging	229,900	$ 7.5	9.72/1
Vons Companies, Inc.	Supermarkets	11,400	$ 5.2	7.71/1
American Stores Co.	Supermarkets	17,400	$22	5/1
Textron, Inc.	Conglomerate	58,000	$ 7.4	4.45/1
Phillips Petroleum	Oil	21,800	$12.3	4.28/1
Wetterau, Inc.	Consumer distributing	15,000	$ 5.3	3.99/1
Stone Container Corp.	Paper products	32,600	$ 5.3	3.64/1
Dayton Hudson Corp.	Retailing	140,000	$13.6	3.59/1
Litton Industries, Inc.	Conglomerate	50,700	$ 5	3.56/1
Unocal Corp.	Oil	17,271	$11	3.06/1
McDonnell Douglas Corp.	Defense	127,926	$14.5	3/1
Goodyear Tire & Rubber Co.	Automotive	109,899	$10.8	3/1
Pepsico, Inc.	Food retailing	266,000	$15.2	2.89/1
Time Warner Inc.	Media	34,700	$ 7.6	2.67/1
Occidental Petroleum	Oil	53,500	$20	2.6/1
Federal Express	Delivery	64,700	$ 7	2.44/1

SOURCE: DISCLOSURE RESEARCH

These are America's most highly leveraged firms among the non-financial, non-utility companies with revenues of more than $5 billion yearly.

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Restaurants in New York complain that Bryan Miller, who writes the *NY Times* restaurant reviews, has too much power -- power to make or break a restaurant. The *Times* has a four-star system, one star is good, two stars very good, three excellent, four extraordinary. The word is that each star is worth half a million dollars in income to a restaurant. In other words, if a restaurant gets two stars that's worth a million bucks in meal tickets. All-powerful Miller often disguises himself when he goes into a restaurant, using different names and seldom if ever being photographed. Times circulation on Friday (which is review time) -- 1.3 million.

* *

Speaking of restaurants, I have long felt that America's penchant for "eating out" will cool off with the squeeze on income in the coming recession. Well, we're there now (or getting there), and the squeeze on restaurants is starting. The high-priced eateries are all cutting prices, putting in special menus or going out of business. But it's the fast-food industry that interests me because it's so huge.

What's happened is that fast food has priced itself too high. Most fast-food places aren't cheap any more, and consequently a new industry has started -- fast food at a price. These are mostly a basic "hamburger, fries and a coke" for a few bucks or less. This, by the way, is how today's monster chains originally started. The other trend is the price war. For instance, Taco Bell has just brought out a new menu -- and 15 items have been slashed in price. As the recession deepens, I expect to see the big squeeze hit the fast food business, and price wars will be rife in the fight for the consumer's shrinking dollar.

* *

Now that the election is over, even Mr. Bush is talking about a recession (but a little one, of course). But what about the nation's economists? This cartoon may provide the answer:

ARE WE IN A RECESSION?
THAT DEPENDS UPON WHO YOU LISTEN TO. ACCORDING TO THE FEDERAL RESERVE...
CLOSE... BUT NOT QUITE...
MR. GREENSPAN
MEANWHILE
DR. WALTER WIDGET, A LEADING ECONOMIST AT A WASHINGTON THINK TANK, ANALYZES THE LATEST INDICATORS.
THE NUMBERS SHOW... IT'S NOT A RECESSION YET
THEN CAME THE CALL FROM THE HEAD OF THE THINK TANK...
WIDGET! PLEASE STEP INTO MY OFFICE!
SEVERAL LARGE CORPORATIONS HAVE CUT BACK OUR FUNDING... I'M AFRAID WE'RE GOING TO HAVE TO CUT YOUR SALARY IN HALF.
THE VERY NEXT DAY:
THE FINANCIAL BUGLE
LEADING ECONOMIST DECLARES:
RECESSION HAS HIT
DR. WIDGET
BY SHEFELMAN FOR NEWSDAY

* *

California is often termed "Nutville", and San Diego may be its capital. Speaking of the bizarre (which is par for the course in San Diego), last week a guy was arrested at the Mexican border (25 miles south of here) for trying to smuggle in 327 fertile ostrich eggs worth $1,000 to $1,500 a piece or over $300,000 (the eggs were stopped because they may carry Newcastle's disease). The fellow tried to get the eggs across the border claiming they were "camping equipment." By the way, remember how hot chinchillas and then llamas were (maybe still are). The hot item now is ostriches. An ostrich chick can sell for $10,000, an adult for $20,000.

* *

John L. Jackley is writing a book about the House of Representatives. In a letter to the *NY Times* (Oct. 29), here's a bit of what he says: "Forget about our Constitutional system of checks and balances. The only checks that count on Capitol Hill are those that can be cashed. Is this system needed? You bet. Look at it from a Congressional perspective: if you were asked to help run the nation with a staff of 20 to cater to your every personal and professional whim; handed free phones, offices, mobile offices and gifts; offered private gyms, swimming pools, saunas and a host of others perks; given the ability to put your relatives on the Government payroll, and paid a salary of $125,000 (a third of which is specifically to compensate you for not taking bribes), wouldn't you do everything in your power to hang on at all costs? That is the House today. Members are no longer here to make the laws -- they are here to stay -- literally."

Russell comment: Yeah, it makes me damn mad! And it has for years.

* *

Disneyland has raised its price to $27.50 for adults and $22.50 for kids. That means entrance fees are $100 for a family of four. It's going to be interesting to watch the gate figures for Disneyland. I'm betting that they'll head down -- sharply . . . By

the way, the *Wall Street Journal* will raise its news stand price to 75 cents, the first daily newspaper to do so.

* *

I have long felt that two industries will suffer badly in the next recession. They are fast food and hotels. Fast food (1) because fast food has become expensive food, and (2) because eating one-third of our meals out is a relatively new custom (and one that is easily curbed). When people want to save money, the first thing they do is eat home.

As far as the hotel industry, not only has it terribly over-built, but the better hotels have literally priced themselves out of the market (and there is fierce competition from the new bargain-priced hotels and motels). Since their bull market highs, hotel stocks have dropped 68% on average. From 1980 to 1989, hotels have added 1 million rooms. Too late to halt construction plans in place, in 1991 hotels will spend a record $8.7 billion on new construction. That, in my opinion, is the ticket to disaster for the high-priced hotel industry.

My father was a civil engineer; he loved building bridges and buildings. But after the 1929 crash construction in the US came to an abrupt end. During the 1930s my father had to turn to real estate management; he was never again involved with construction.

One day back in 1932 as my father and I were walking down Fifth Avenue, he turned to me and said, "Dick, do you see all these beautiful buildings? Most of the men who built these structures are broke. But there's one thing about a boom -- buildings go up, whole new cities are born. With the Depression here most of the men who built these buildings are now bankrupt -- but their buildings are standing. That's always been the cycle of real estate in America."

I remember it well, because we were walking past the Empire State Building. The builders had filed for bankruptcy, and the Empire State Building lay unfinished for a few years. Later other builders took it over, and the beautiful structure was finally finished.

Many years later, in 1945, WW II had ended and I was back from Europe. On a special assignment I was flying into NYC in a B-25 (Mitchell) bomber with my combat crew. Incredibly, on that same day, a B-25 crashed into the Empire State Building. Naturally, my folks thought that was my plane and never got over the fright of waiting for news one way or the other.

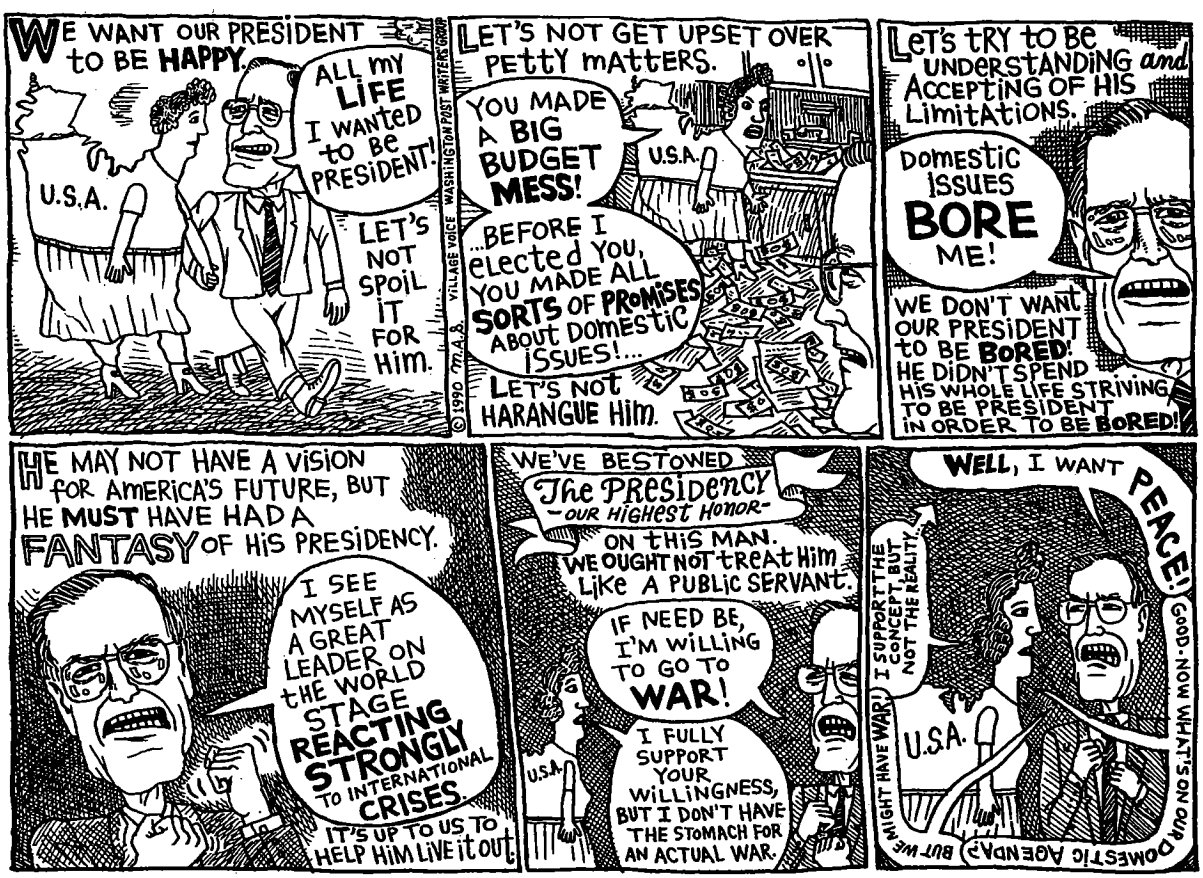
GOLD: The writeups on gold are very negative, very pessimistic. It's almost as if we were back to the "barbaric relic" days of the early '70s. As the world slowly and deceptively sinks into global deflation, gold, as far as most commentators are concerned, has lost its reason for being.

But remember this: gold isn't an investment (real investments provide a return), gold is an asset. In inflationary times, you hold gold because it's a store of value and it tends to hold its purchasing power. In deflationary times, you hold gold because gold will act as an island of safety if the financial system breaks down.

With the US now on a course of monetary suicide, the case for holding gold increases. Furthermore, the worse the news and opinions on gold, the stronger the gold base becomes. Look at it this way -- gold has been bad-mouthed for the past year or so (today the anti-gold voices seem almost to be reaching a climax), but basically the dollar-price for gold has held. The 370 level has held month after month for gold, regardless of the bad-mouthing. When an item (any item) holds its price in the face of adverse news and bad mouthing, that kind of action smacks of accumulation to me.

* *

LATE NOTES: The federal deficit for the single month of October was $31.46 billion, up 21% from October 1989. But get this: the latest figures show the total federal debt at $3.318 trillion. One year ago is was $2.918. Thus, a **RECORD $400 billion** has been added to the federal debt over the last 12 months (at the incredible rate of $7.69 billion a week). This is the REAL deficit -- anything else is a lie. The finances of the US continue to surge OUT OF CONTROL! The Transportation Average is now far below its October peak of **883.69**, so far below that I would have to say that this bear rally is basically over regardless of what the Dow does.


WE WANT OUR PRESIDENT TO BE HAPPY.
U.S.A.
ALL MY LIFE I WANTED TO BE PRESIDENT!
LET'S NOT SPOIL IT FOR HIM.
© 1990 M.A.S. VILLAGE VOICE WASHINGTON POST WRITERS GROUP
LET'S NOT GET UPSET OVER PETTY MATTERS.
YOU MADE A BIG BUDGET MESS!
U.S.A.
...BEFORE I elected YOU, YOU MADE ALL SORTS OF PROMISES ABOUT DOMESTIC ISSUES!...
LET'S NOT HARANGUE HIM.
LET'S TRY TO BE UNDERSTANDING and ACCEPTING OF HIS LIMITATIONS.
DOMESTIC ISSUES BORE ME!
WE DON'T WANT OUR PRESIDENT TO BE BORED! HE DIDN'T SPEND HIS WHOLE LIFE STRIVING TO BE PRESIDENT IN ORDER TO BE BORED!
HE MAY NOT HAVE A VISION FOR AMERICA'S FUTURE, BUT HE MUST HAVE HAD A FANTASY OF HIS PRESIDENCY.
I SEE MYSELF AS A GREAT LEADER ON THE WORLD STAGE REACTING STRONGLY TO INTERNATIONAL CRISES.
IT'S UP TO US TO HELP HIM LIVE IT OUT.
WE'VE BESTOWED The PRESIDENCY -OUR HIGHEST HONOR- ON THIS MAN. WE OUGHT NOT treat Him Like A PUBLIC SERVANT.
IF NEED BE, I'M WILLING TO GO TO WAR!
U.S.A.
I FULLY SUPPORT YOUR WILLINGNESS, BUT I DON'T HAVE THE STOMACH FOR AN ACTUAL WAR.
WELL, I WANT PEACE!
I SUPPORT THE CONCEPT, BUT NOT THE REALITY.
U.S.A.
GOOD. NOW WHAT'S ON OUR DOMESTIC AGENDA?
BUT WE MIGHT HAVE WAR!
BY STAMATY FOR THE VILLAGE VOICE

George Bush is racing around, still trying to get an international consensus before going to war. With a possible January ULTIMATUM to Hussein, the odds for war increase tremendously . . . But let's lighten up, it's not the end of the world -- yet. And I got a big laugh out of this cartoon commentary.

NEXT MAILING:

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